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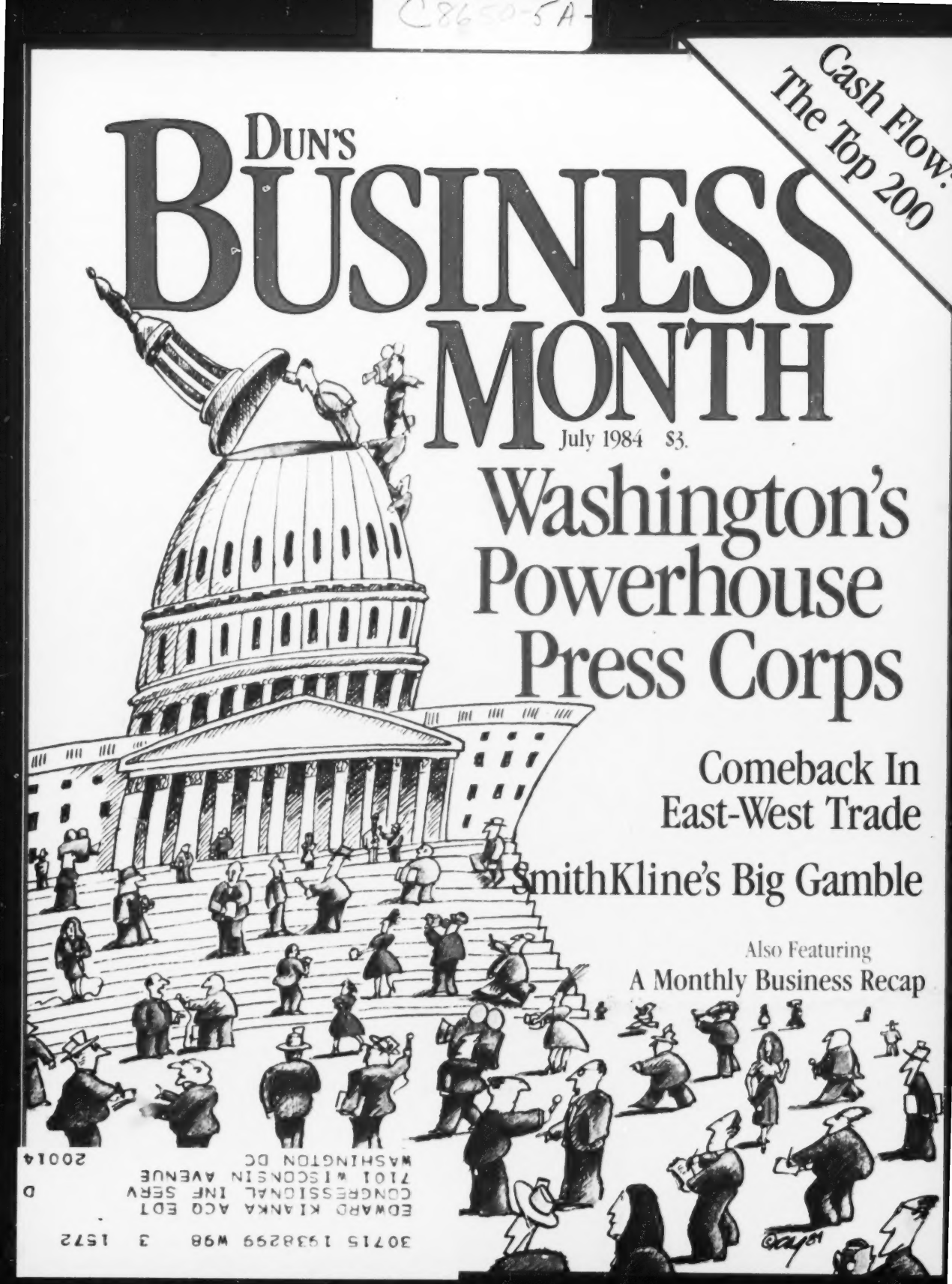

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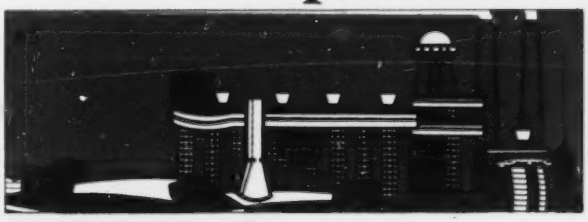

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1985: A Watershed Year For the Budget?

For the first time in a decade, both Congress and the White House have stopped kidding themselves about future budget deficits. Even the official Reagan Administration forecast admits that the deficit is a real problem, one that's going to get worse as time goes by and that has no miraculous solution.

This is quite a switch from past predictions, which always projected a balanced budget or even a surplus in the future. These rosy forecasts started with the Budget Act of 1974, which required that both the Administration and Congress make five-year budget projections.

The results speak for themselves (*table*). The difference between the forecasts and what actually happened is nothing short of phenomenal. Time after time, the five-year figures were woefully wrong—and they grew further off the mark as each year passed. For example, the Administration originally predicted a $51.9 billion deficit for the 1976 fiscal year; in fact, there was a $66.4 billion deficit for a $14.5 billion gap. And its projection of a $25 billion surplus for fiscal 1981 was $84.6 billion off the mark.

Part of the problem stems from the fact that budget projections are based on expected trends, not the ups and downs of the business cycle. The real versus the actual outcome is thus naturally bound to be off base. Another reason for the incredibly bad forecasts is that the White House budget always assumes certain actions by Congress—which usually don't occur.

Meanwhile, the Congressional Budget Office (CBO) predictions assume that no current tax laws and spending plans will be changed—which is an equally bad guess, since Congress always takes new initiatives. Other unknown factors, such as the rate of inflation and its impact on entitlements and other "uncontrollable" spending, also make budget forecasting an extremely treacherous exercise.

Whatever the reason for the past mistakes, the politicians seem finally to have come down to earth. There's a growing realization—witness this election year's attack on the budget—that deficit delusions are dangerous to the economy's health. Many insiders on Capitol Hill say the "down payment" legislation is just the tip of the iceberg. This could mean that in 1985 there will be a significant, surprisingly courageous effort to reduce spending and even increase taxes to bring the deficit under control—probably during the first 100 days of the next new Administration, Republican or Democratic.

In short, however frightening the current deficit forecasts, the good news is that these realistic numbers may well force policymakers to take realistic action. Given the history of past budget delusions, this would indeed make 1985 a watershed year for the economy.

—JOSEPH W. DUNCAN

Joseph W. Duncan, formerly Chief Statistician of the Office of Management and Budget and Chairman of the United Nations Statistical Commission, is Corporate Economist of The Dun & Bradstreet Corp.

Budget Blunders

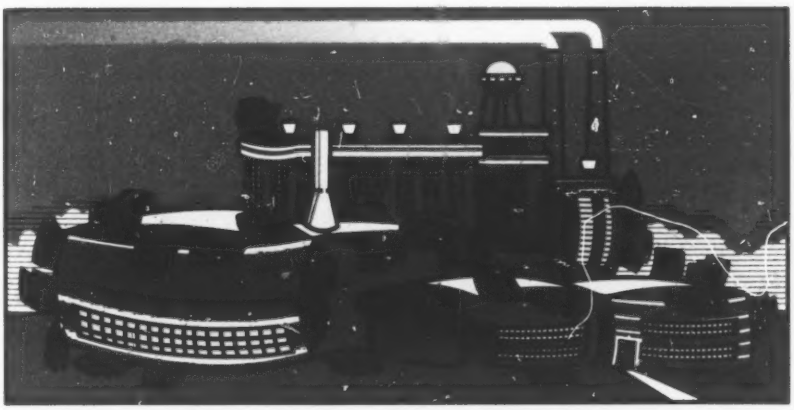
With one exception, five-year budget projections are invariably overoptimistic. The figures below show the difference between what was predicted and what actually happened since such projections were started in fiscal 1976.

Five-year projection starting with fiscal	How far off the mark results were in				
	Year 1	Year 2	Year 3	Year 4	Year 5
1976	−14.5	−14.4	−29.2	−28.1	−84.6
1977	−2.0	−26.0	−37.3	−100.2	−133.4
1978	−1.8	−16.1	−73.0	−84.0	−139.2
1979	32.9	−22.1	−66.5	−155.8	−271.6
1980	−30.6	−56.7	−148.4	−268.1	
1981	−42.1	−115.4	−219.9		
1982	−83.1	−187.4			
1983	−103.9				

(billions of $)

A Banner Year For Cash Flow

While money is coming in fast, it's going out even faster. Trouble ahead?



Money, moolah, simoleons, bucks. By whatever name, cash poured into corporate coffers last year at a rate that has seldom, if ever, been seen. Unfortunately, it poured out even faster.

Where did the funds come from? Where did they go? And were the huge outlays of money well spent?

A thumping increase in corporate profits were a major contributor. They rose 25% last year, to $142.8 billion after taxes. Then there was depreciation—typically the biggest element in cash flow—which, thanks to President Reagan's tax cuts, bolstered the total considerably more than usual. "There is no dispute about the big contribution the Reagan tax cuts have made to cash flow," comments economist Lacy Hunt of the CM&M Group. Economist Rosanne Cahn of Goldman Sachs & Co. estimates that the faster depreciation lowered corporate taxes by $17 billion last year. All in all, profits and depreciation—the basic definition of cash flow—rose to $417.9 billion last year and are still on the way up.

Reagan tax cuts big help

Accounting rules frequently disguise true cash flow, and the commonly used cash flow numbers only roughly approximate how much money is being generated by a corporation's regular operations. DUN'S BUSINESS MONTH has refined the basic definition, included other important sources of cash, and has come up with a Special Report on Cash Flow from Operations.

Among nonfinancial corporations, the pre-divestiture American Telephone & Telegraph Co. topped the list of the 200 biggest money machines; its cash flow from operations came to $19.1 billion last year (*table, page 47*).

AT&T was also among the companies that laid out more for dividends, capital spending and debt retirement than it took in, so its discretionary cash flow was negative. In order to sustain such spending, companies in such a position have to borrow, sell more stock or draw down their working capital. And that's what Corporate America did last year. For example, nonfinancial companies took on an additional $17 billion in long-term debt.

As soaring stock prices drew the public back into the market, corporations made a record amount of new equity offerings. More than 1,600 companies sold equity last year, adding almost $40 billion in new capital.

On the fast-rising spending side, inventories accounted for the biggest part. Nonfarm inventories advanced $76 billion from March 30, 1983 to March 30, 1984, according to economist Robert Scott of Chase Econometrics. As big as the gain was, however,

it was well in line with booming sales. According to Scott, the overall ratio of inventories to sales registered a real improvement over prior recovery patterns. And the manufacturing sector was particularly tight-fisted. Manufacturers accounted for about 12%, or $9.5 billion, of the total inventory gain.

Since March, inventories have been rising in relation to sales, and Scott believes that business will relax its inventory discipline when it starts losing sales due to lack of product. Nonetheless, he believes that real gains have been made and that the rise will be tempered. "Overall, the norm for inventories in relation to sales has probably declined permanently because companies have put inventory control mechanisms in place," he says.

Spending for new plant and equipment is now climbing at a record post-recovery rate. Most of the money is for equipment. Of the $53 billion increase in capital outlays since the first quarter of last year, $45 billion, or 85%, went for new equipment, according to economist Jill Thompson of Data Resources.

But this capital-spending resurgence, largely on small computers, imported machinery and trucks, has reaped no discernible harvest of productivity gains nor any renaissance in U.S. factories. Despite the huge outlays, productivity is doing no better than normal for this part of the expansion, says Chase Econometrics' Edward Friedman. The only notable difference from other recent expansions, he says, is that the large numbers of unemployed have suppressed wage increases and helped contain inflation.

Faster depreciation allowances have not encouraged new plant investments; construction accounted for only $7 billion of last year's increase in capital outlays. Of that, Thompson notes, a "big chunk" is for office buildings. In fact, she calls the current office boom "a construction craze," mainly on the part of individuals reaping the cash flow benefits from the faster depreciation schedules in the 1981 tax act.

Another big share of corporate spending has gone into buying other companies. This year, four companies alone—Texaco, Chevron, Royal Dutch Shell and Mobil—paid $35 billion in cash to investors. But mergers and acquisitions are only one part of the story. Leveraged buyouts probably consumed another $10 billion in bank borrowings last year. There has also been a marked jump in corporate stock repurchases; in the first four months of this year, companies offered to buy in more than $6 billion of their own stock.

Book value of equity at the end of the year was less than at the beginning.

Because of these buy-ins, mergers and LBOs, more stock was retired last year than was newly issued, estimates managing partner James Stewart of Morgan Stanley & Co. Much of the unprecedented volume of equity issues during 1983 was initial public offerings, he notes, and not many seasoned industrial companies capitalized on the market opportunity. As a result of retirements, the book value of equity at the end of the year was less than it was at the beginning, he estimates. "With less publicly traded equity and more debt, the financial leverage in the aggregate went up," Stewart adds.

Companies more leveraged

This leverage is dangerous, warns Securities and Exchange Commission Chairman John S. R. Shad. "The more leveraged takeovers and buyouts today," he says, "the more bankruptcies tomorrow."

The debt side of the ratio, meanwhile, continued upward. On top of the $17 billion in long-term debt they added last year, nonfinancial corporations have taken down another $36 billion in the first five months of this year, Stewart estimates. The net issuance of commercial paper has also shown a sizable increase, running to $24 billion so far this year. And bank borrowing has climbed $40 billion in the same period.

Because companies haven't used their cash to pay down debt, corporate leverage right now is worrisome, says economist Allen Sinai of Shearson Lehman/American Express. Short-rates are unusually high for this stage in the cycle, he says, "pretty much wiping out" any advantage the extra cash might have provided in servicing debt.

The ballooning of short-term borrowings makes balance sheets fragile. The ratio of short-to-long-term debt is almost as high as it was in the last stages of the last expansion, Sinai notes, and it has not dropped nearly as much as it did in the aftermath of the 1973–75 recession. "It means business is more vulnerable to any rise in rates," he adds.

And there is little prospect of rate relief ahead unless there is substantial progress on the deficit or an unexpected slowdown in the economy. In the normal pattern of economic expansions, rates, particularly short rates, move up steadily from the current phase of the cycle—and, in fact, Sinai predicts that the prime rate, recently 12½%, will rise to 15¾% or 16% by the end of next year. On the long-term front, the huge supply of new bonds likely to come out any time there is a drop in rates is expected to limit any decline.

While a continued recovery in corporate profits and cash flow could help American business, they obviously won't be enough if companies maintain their recent torrid pace of spending and borrowing. Unfortunately, the record so far indicates that neither foreign competition nor the lessons of recent recessions has influenced the behavior of Corporate America. True, inventories appear to be more firmly controlled. But otherwise, companies have borrowed to the hilt and are likely to be as unprepared for recession or a sudden upsurge in interest rates as they were the last time.

—EUGENE HERSHMAN

Cash Flow: The Top 200

Cash flow is Corporate America's yardstick of financial strength and flexibility. Cash flow gives a corporation the power to borrow or to sell equity, the foundation on which to build new plants or buy new businesses; it funds research and development and the exploration of new business opportunities; it generates the cash to pay today's dividends and tomorrow's dividend increases, and it provides the resources to withstand economic adversity.

Analysis of cash flow reveals truths about corporate performance that may be hidden by accrual accounting methods. In industries such as oil and gas and real estate, cash flow trends tell the story of the company's condition more clearly than earnings. Strong cash flow generation is usually a sign of health, but it can be a sign of weakness, too, when companies cut needed investments in order to raise cash. In such a situation, an analysis of cash flow trends detects problems long before they surface on the profit and loss statement.

By itself, cash flow is not a measure of management performance. When tracked over a period of years along with earnings, however, it is a useful predictor of future dividend changes. Nor is cash flow equal to cash on hand; many companies spend much more than they take in. The multi-year record of discretionary cash flow—that is, cash flow remaining after capital expenditures, debt retirement and dividend payments—is a moving picture of a company's long-run financial vigor.

This roster of 200 nonfinancial companies is ranked by the dollar value of cash flow generated from operations in 1983. The list provides a more detailed picture of the companies' financial strength by including per cent change in cash flow from 1982, earnings for 1983 and per cent change since 1982, discretionary cash flow (cash flow minus capital expenditures, dividends and debt retirement) in 1983 and 1982, return on equity, debt equity ratio, revenues and cash flow as a percent of revenues. The information is drawn from 6,400 companies in the Standard & Poor's Compustat data base. Definitions of terms and footnotes are at the end of the tables on page 58.

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES
	$Millions	%change vs. '82	$Millions	%change vs. '82	$Millions '83	$Millions '82	%	%	$Millions	%
1. **American Telephone[6]**	19,103	−4.2	5,747	−17.8	−775	−2,073	9.2	0.76	69,403	27.5
2. **Exxon**	12,352	−3.4	4,978	18.9	2,087	906	16.9	0.19	88,561	13.9
3. **Intl. Business Machines**	11,128	18.5	5,485	24.4	3,805	562	23.6	0.14	40,180	27.7
4. **General Motors**	8,281	11.3	3,730	287.5	2,916	294	18.1	0.23	74,582	11.1
5. **Ford Motor**	5,001	90.4	1,867	nm	2,662	−152	24.7	0.48	44,455	11.2
6. **Standard Oil (Calif.)**	4,406	17.2	1,590	15.5	138	−294	11.3	0.14	27,342	16.1
7. **Standard Oil (Indiana)**	4,376	5.7	1,868	2.3	455	24	15.0	0.35	27,635	15.8
8. **Du Pont (E.I.)**	4,233	2.7	1,127	26.1	910	169	9.9	0.48	35,378	12.0
9. **Atlantic Richfield**	4,106	−8.9	1,548	−7.6	−198	−563	14.2	0.51	25,147	16.3
10. **Mobil**	3,891	13.0	1,503	8.9	−193	−1,934	10.8	0.51	54,607	7.1
11. **Shell Oil**	3,673	13.1	1,633	1.7	736	−435	14.4	0.41	19,678	18.7
12. **Occidental Petroleum**	3,224	nm	480	208.6	849	−2,057	4.3	0.67	19,116	16.9
13. **Texaco**	3,165	−15.8	1,233	−3.7	−794	−88	8.4	0.21	40,068	7.9
14. **GTE**	3,148	35.6	978	17.0	−376	−1,253	14.7	1.42	12,944	24.3
15. **General Electric**	3,009	−1.4	2,024	11.4	312	579	18.0	0.17	26,797	11.2

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES
	$Millions	%change vs. '82	$Millions	%change vs. '82	$Millions '83	$Millions '82	%	%	$Millions	%
16. Gulf	2,985	−0.6	978	8.7	267	−559	9.7	0.26	26,581	11.2
17. Standard Oil (Ohio)	2,649	−32.5	1,512	−19.5	−587	449	18.7	0.49	11,599	22.8
18. Tenneco	2,438	−14.3	716	−14.8	173	186	11.2	0.85	14,449	16.9
19. Phillips Petroleum	2,332	30.0	721	11.6	813	−715	11.7	0.39	15,249	15.3
20. Sun Co	2,097	7.7	453	−15.6	479	−92	8.6	0.47	14,730	14.2
21. Philip Morris	1,884	43.5	903	15.6	952	48	22.4	0.76	9,466	19.9
22. Eastman Kodak	1,820	14.7	565	−51.4	cf	cf	7.5	0.08	10,170	17.9
23. Chrysler	1,758	cf	302	nm	568	cf	23.9	1.11	13,240	13.3
24. Unocal	1,682	−14.7	626	−22.1	−173	−312	12.1	0.28	10,066	16.7
25. Reynolds (R.J.)	1,600	−3.6	835	−4.0	208	282	14.8	0.27	10,371	15.4
26. Boeing	1,580	nm	355	21.6	1,209	−843	11.7	0.13	11,129	14.3
27. Xerox	1,515	14.5	466	26.8	−79	−232	9.9	0.43	8,463	17.9
28. Procter & Gamble[1]	1,372	16.5	866	11.4	336	186	18.8	0.22	12,452	11.0
29. Union Pacific	1,241	7.1	441	35.0	55	90	10.9	0.53	8,353	14.8
30. Halliburton	1,204	1.0	315	−36.6	759	509	8.8	0.24	5,511	21.8
31. Signal	1,162	267.0	114	0.7	848	74	4.1	0.15	6,074	19.1
32. Dow Chemical	1,118	−24.4	293	−14.3	73	253	5.8	0.71	10,951	10.2
33. United Technologies	1,055	45.4	509	19.3	167	−122	13.6	0.35	14,669	7.2
34. Minnesota Mining & Mfg	1,050	5.3	667	5.7	94	4	18.0	0.16	7,039	14.9
35. Monsanto	1,037	16.0	369	12.2	281	27	10.1	0.32	6,299	16.5
36. Coca-Cola	999	76.7	558	9.0	92	−183	19.1	0.21	6,829	14.6
37. Union Carbide	992	4.0	79	−74.5	−68	−568	1.6	0.55	9,001	11.0
38. Dart & Kraft	971	20.8	435	24.2	525	221	14.9	0.24	9,714	10.0
39. RCA	960	−8.2	241	8.2	−1,007	−802	8.7	0.92	8,977	10.7
40. Norfolk Southern	939	22.9	356	−13.3	328	221	8.5	0.26	3,148	29.8
41. Superior Oil	899	−3.7	235	5.0	57	−200	9.5	0.47	1,793	50.1
42. McDonnell Douglas	881	23.3	275	28.0	78	325	13.3	0.04	8,111	10.9
43. ITT	881	−50.2	674	−4.0	−526	213	11.7	0.64	14,155	6.2
44. Santa Fe Pacific	872	166.0	333	166.3	−397	−239	5.8	0.32	5,976	14.6
45. Burlington Northern	871	185.3	413	132.2	23	−201	10.7	0.73	4,508	19.3
46. Amerada Hess	870	−1.8	205	21.7	−198	−123	8.1	0.83	8,369	10.4
47. Burroughs	858	58.9	197	115.8	139	−239	8.8	0.31	4,296	20.0
48. K mart[2]	826	6.0	492	88.0	208	201	17.0	0.89	18,789	4.4
49. Merck	809	34.2	451	8.6	318	92	18.5	0.31	3,246	24.9
50. UAL	806	43.4	142	nm	−157	−389	9.0	1.02	6,022	13.4
51. United Parcel Service	795	68.5	490	47.6	396	62	35.7	0.00	6,015	13.2
52. Transco Energy	792	371.2	133	−2.9	13	−672	16.5	1.36	3,845	20.6
53. Anheuser-Busch	789	56.7	348	21.1	253	42	19.7	0.47	6,034	13.1
54. Rockwell International[3]	781	42.2	389	17.3	163	−117	16.4	0.09	8,098	9.6
55. Beatrice Foods[4]	745	14.9	433	902.3	299	220	22.7	0.49	9,327	8.0
56. Aluminum Co. of America	744	174.6	164	nm	196	−389	5.1	0.52	5,263	14.1
57. Goodyear Tire & Rubber	740	13.0	270	9.2	115	228	9.0	0.29	9,736	7.6
58. NCR	734	−11.7	288	22.7	335	428	14.1	0.19	3,731	19.7
59. Smithkline Beckman	715	246.3	486	6.8	cf	cf	23.6	0.19	2,835	25.2
60. Litton Industries[5]	704	159.9	232	−26.5	425	−124	12.5	0.15	4,720	14.9
61. Lilly (Eli)	703	21.9	457	11.1	cf	cf	21.6	0.19	3,034	23.2
62. American Home Products	703	12.2	627	12.0	123	138	30.6	0.03	4,856	14.5
63. United Telecom	700	1.0	233	15.4	−38	−83	13.9	1.15	2,474	28.3
64. AMR	695	173.7	228	nm	54	−273	15.9	1.06	4,763	14.6
65. Texas Oil & Gas[6]	692	38.4	296	19.7	0	−135	24.8	0.57	1,838	37.6

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES
	$Millions	%change vs. '82	$Millions	%change vs. '82	$Millions '83	$Millions '82	%	%	$Millions	%
66. Gulf & Western[5]	682	712.4	260	30.8	422	−339	13.5	0.60	3,993	17.1
67. Pepsico	681	−29.3	284	26.7	−13	320	16.0	0.61	7,896	8.6
68. Honeywell	660	50.9	231	−14.8	143	−30	10.0	0.37	5,753	11.5
69. Johnson & Johnson	655	−0.2	489	−6.6	31	−7	16.2	0.14	5,973	11.0
70. Pfizer	653	7.1	447	34.3	171	194	20.8	0.37	3,750	17.4
71. TRW	627	68.5	205	4.5	187	−46	12.5	0.24	5,493	11.4
72. McDonald's	622	16.8	343	14.0	−15	−107	19.5	0.73	3,001	20.7
73. General Dynamics	617	−17.9	287	78.6	346	573	22.6	0.02	7,146	8.6
74. Kerr-McGee	610	22.3	118	−43.5	−1	−144	6.8	0.56	3,508	17.4
75. Pennzoil	601	12.8	164	−13.0	−119	−202	12.7	0.74	2,317	25.9
76. Motorola	593	85.2	244	44.0	45	−179	12.5	0.14	4,328	13.7
77. U.S. Steel	581	171.4	−1,161	nm	−1,711	−1,954	nm	1.34	16,869	3.4
78. Allied	576	−20.8	450	65.4	−335	8	14.6	0.51	10,022	5.7
79. Hewlett-Packard[7]	572	−14.7	432	12.8	54	270	15.0	0.08	4,710	12.1
80. Internorth	569	16.3	255	40.9	164	19	15.9	0.75	4,997	11.4
81. MCA	557	30.5	147	−16.5	401	322	12.8	0.00	1,584	35.2
82. Nabisco Brands	556	−12.0	323	2.5	128	202	18.9	0.33	5,985	9.3
83. Continental Telecom	551	29.9	172	14.6	−184	−219	13.8	1.42	2,101	26.2
84. Continental Group	547	7.6	199	10.4	117	−81	11.5	0.42	4,820	11.3
85. Martin Marietta	546	125.8	141	54.2	273	−212	17.8	0.74	3,899	14.0
86. Fluor[7]	539	139.1	81	−47.2	−37	−416	4.6	0.48	5,300	10.2
87. Bristol-Myers	536	3.4	408	17.0	224	208	21.3	0.13	3,917	13.7
88. Weyerhaeuser	511	−19.6	205	46.3	−101	−130	5.5	0.44	4,883	10.5
89. Westinghouse Electric	506	−44.6	449	−0.1	−395	8	13.2	0.38	9,533	5.3
90. FMC	506	13.8	169	10.7	236	56	11.5	0.28	3,498	14.5
91. Raytheon	503	−20.1	300	−5.8	79	207	15.9	0.08	5,937	8.5
92. Diamond Shamrock	499	−26.1	−60	nm	−73	−59	nm	0.69	4,026	12.4
93. Grace (W.R.)	498	−25.3	160	−50.0	−67	−140	7.3	0.69	6,219	8.0
94. CSX	496	−25.6	272	−19.7	−355	63	6.0	0.58	5,787	8.6
95. Caterpillar Tractor	487	nm	−345	nm	20	−919	nm	0.67	5,424	9.0
96. Safeway Stores	476	28.9	183	14.8	−205	−268	13.2	0.94	18,585	2.6
97. Sonat	475	9.1	210	2.7	206	−12	16.3	0.51	2,687	17.7
98. Hospital Corp. America	475	13.9	243	41.5	−280	−268	15.6	1.10	3,203	14.8
99. Consolidated Foods[1]	474	110.8	171	9.3	171	−51	18.2	0.47	6,572	7.2
100. Penn Central	464	−6.6	20	−85.0	280	244	nm[10]	0.18	2,539	18.3
101. Celanese	464	84.9	112	nm	245	−167	10.0	0.71	3,261	14.2
102. Time	462	12.4	143	−8.3	58	−17	16.4	0.44	2,717	17.0
103. Ralston Purina[3]	454	cf	256	180.1	213	cf	23.2	0.32	4,872	9.3
104. Georgia-Pacific	453	−5.6	105	101.9	56	−191	5.2	0.72	6,469	7.0
105. Emerson Electric[3]	442	21.4	303	0.9	140	57	17.8	0.11	3,476	12.7
106. Abbott Laboratories	439	15.4	348	20.2	9	37	24.5	0.45	2,928	14.9
107. Ryder System	438	33.4	101	22.4	−172	−300	15.6	1.34	2,384	18.7
108. Federated Dept Stores[2]	427	−2.7	338	45.3	2	−99	14.5	0.41	8,690	4.9
109. Borg-Warner	417	69.2	183	9.1	175	−3	12.6	0.20	3,542	11.8
110. Midcon[3]	412	na	122	−8.3	59	na	11.4	0.84	3,319	12.4
111. United Energy Resources	409	−18.9	29	−83.8	196	−1	3.2	0.55	4,035	10.1
112. American Brands	403	−24.4	390	2.4	47	168	18.3	0.47	4,436	9.1
113. Lockheed	387	nm	263	26.8	80	−242	31.5	0.79	6,490	6.0
114. Times Mirror	387	48.3	200	42.7	59	−47	17.8	0.53	2,478	15.6
115. Murphy Oil	383	−41.7	132	−16.4	−76	27	13.4	0.32	2,388	16.0

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES
	$Millions	%change vs. '82	$Millions	%change vs. '82	$Millions '83	$Millions '82	%	%	$Millions	%
116. Kroger	380	140.5	127	−11.6	−148	−309	11.8	0.83	15,236	2.5
117. Kimberly-Clark	378	63.4	189	−4.4	−89	−157	12.8	0.40	3,274	11.5
118. Coastal	378	nm	94	42.8	145	−530	15.1	1.85	5,963	6.3
119. PPG Industries	375	−17.6	232	49.9	cf	cf	12.6	0.39	3,682	10.2
120. Int'l. Paper	375	−50.7	255	58.5	−543	−103	6.9	0.28	4,357	8.6
121. American Cyanamid	355	−9.8	166	25.9	97	115	10.3	0.39	3,535	10.1
122. CBS	355	84.7	187	24.8	165	−27	13.0	0.21	4,458	8.0
123. Warner-Lambert	355	9.9	200	14.6	63	23	14.1	0.49	3,108	11.4
124. Deere[7]	351	nm	23	−56.0	174	−475	1.0	0.85	3,968	8.8
125. Kellogg	347	1.6	243	6.5	65	102	24.8	0.04	2,381	14.6
126. CPC International	346	−9.7	136	−41.2	6	47	10.4	0.34	4,011	8.6
127. Southern New Eng. Tel	345	24.7	121	31.4	89	7	13.7	0.64	1,183	29.2
128. Wang Laboratories[1]	341	391.5	152	41.9	94	−107	16.7	0.45	1,538	22.2
129. Marriott	341	17.9	115	22.2	−129	−153	18.3	1.77	3,037	11.2
130. Louisiana Land & Expl.	334	−27.7	94	23.2	23	−43	14.8	0.80	1,220	27.4
131. Leaseway Transportation	330	21.3	37	41.0	−36	−96	12.8	1.14	1,267	26.1
132. Texas Instruments	330	−45.0	−145	nm	−172	223	nm	0.22	4,580	7.2
133. Dayton-Hudson[2]	324	38.1	243	22.6	−80	−115	15.8	0.40	6,963	4.7
134. Rohm & Haas	320	29.7	138	60.7	198	73	15.2	0.31	1,876	17.0
135. Colt Industries	316	93.8	99	20.2	216	59	21.3	0.35	1,576	20.1
136. Freeport McMoran	316	5.3	93	41.7	41	−224	12.7	0.40	786	40.2
137. Holiday Inns	315	54.2	124	28.0	−16	−64	12.0	0.51	1,585	19.9
138. Centel	314	6.6	113	4.7	−19	−35	15.4	1.16	1,272	24.7
139. Dresser Industries	304	−0.3	5	−97.0	96	−147	0.3	0.29	3,473	8.8
140. Int'l. Minerals & Chem[1]	302	22.3	80	−34.2	89	7	7.9	0.45	1,462	20.7
141. Texas Eastern	299	−64.8	155	−4.2	−315	17	10.9	0.96	5,393	5.5
142. Baxter Travenol Labs	298	−5.9	218	16.7	21	118	18.9	0.53	1,842	16.2
143. Campbell Soup[5]	297	−18.1	165	10.3	60	142	14.4	0.27	3,292	9.0
144. Air Products & Chem[3]	295	10.4	109	3.1	−61	−176	10.4	0.51	1,634	18.1
145. Olin	293	78.4	72	34.5	127	−16	8.4	0.50	1,935	15.2
146. Penney (J.C.)[2]	292	−48.6	467	8.6	−411	108	13.1	0.48	12,078	2.4
147. Teledyne	285	−37.9	305	16.8	180	293	11.5	0.22	2,979	9.6
148. Hercules	283	−3.0	174	100.6	35	63	13.8	0.32	2,629	10.8
149. Grumman	283	−12.0	111	22.6	116	237	23.4	0.15	2,220	12.7
150. Avon Products	281	41.0	164	−16.4	0	cf	13.6	0.32	3,000	9.4
151. Gillette	281	6.09	146	8.0	84	35	19.3	0.55	2,183	12.9
152. Revlon	280	29.8	111	0.1	95	−12	11.1	0.76	2,379	11.7
153. Reynolds Metals	278	85.9	−91	nm	−64	−84	nm	0.95	3,341	8.3
154. IC Industries	277	−3.4	95	39.3	12	−165	6.6	1.14	3,734	7.4
155. Scott Paper	276	−3.4	124	66.1	−120	−160	8.1	0.39	2,465	11.2
156. May Stores[2]	272	23.7	187	32.0	4	−11	16.1	0.50	4,229	6.4
157. Harris[1]	272	135.5	50	−33.4	125	−80	7.9	0.35	1,424	19.1
158. Amax	267	109.1	−489	nm	51	−369	nm	0.99	2,290	11.7
159. Mitchell Energy & Dev.[2]	266	5.6	73	−9.4	−15	−114	14.0	1.70	931	28.6
160. Disney (Walt)[3]	266	−6.9	93	−7.0	−109	−369	6.6	0.25	1,307	20.3
161. Ashland Oil[3]	261	−29.5	97	−46.6	−199	−202	5.6	0.51	7,852	3.3
162. Squibb	260	68.1	173	12.8	67	−1	14.1	0.21	1,769	14.7
163. Ocean Drilling & Expl.	258	−38.6	119	−37.8	−53	7	14.2	0.23	812	31.7
164. Eaton	257	−30.7	93	nm	131	216	9.3	0.45	2,674	9.6
165. Crown Zellerbach	256	49.5	88	nm	−70	−300	7.1	0.57	2,722	9.4

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES
	$Millions	%change vs. '82	$Millions	%change vs. '82	$Millions '83	$Millions '82	%	%	$Millions	%
166. **Owens-Illinois**	256	−5.9	69	74.1	−15	−35	5.1	0.45	3,422	7.5
167. **Northrop**[9]**.**	256	−30.1	101	nm	−65	−71	17.5	0.02	3,261	7.8
168. **Macy (R.H.)**[5]	256	49.0	187	37.7	66	40	19.5	0.23	3,468	7.4
169. **Champion International**	255	10.2	82	107.2	−91	−100	4.1	0.58	4,264	6.0
170. **International Harvester**[7]	254	nm	−533	nm	176	−237	nm	6.54	3,601	7.1
171. **Wal-Mart Stores**[2]	254	106.0	196	58.1	−7	−66	26.7	0.52	4,667	5.4
172. **Colgate-Palmolive**	251	−41.6	198	0.5	−54	166	14.8	0.30	4,865	5.1
173. **Gould**	249	417.0	79	−12.5	26	−157	8.9	0.36	1,325	18.8
174. **Schering-Plough**	247	−12.7	178	−2.7	−23	7	13.9	0.60	1,808	13.6
175. **Whirlpool**	246	7.8	163	19.7	95	89	16.7	0.06	2,668	9.2
176. **Armco**	242	−44.2	−536	nm	33	−25	nm	0.82	4,165	5.8
177. **Melville**	241	31.5	176	24.0	78	4	21.3	0.18	3,923	6.1
178. **Union Camp**	238	9.8	133	7.0	−290	−153	11.1	0.58	1,688	14.1
179. **Searle (G.D.)**	238	120.8	119	−15.2	84	−55	16.3	0.42	946	25.1
180. **Donnelley (R.R.)**	237	31.8	114	25.5	cf	cf	16.2	0.06	1,546	15.4
181. **Gannett**	236	−9.6	192	6.2	11	−7	18.7	0.29	1,704	13.8
182. **Wickes**[2]	235	nm	9	nm	128	−486	nm	nm	2,875	8.2
183. **Intel**	235	427.0	116	286.4	90	−93	10.3	0.19	1,122	20.9
184. **Pittston**	234	72.3	−72	nm	181	−27	nm	0.32	1,230	19.0
185. **Baker International**[3]	233	8.2	−63	nm	37	−222	nm	0.56	1,838	12.7
186. **Amer. Hospital Supply**	233	−22.1	212	24.6	26	111	15.2	0.23	3,310	7.0
187. **Winn-Dixie Stores**[1]	231	14.6	113	9.6	3	−23	19.5	0.19	7,019	3.3
188. **Cooper Industries**	231	55.9	71	−47.3	52	−72	4.4	0.19	1,842	12.5
189. **Pitney-Bowes**	228	13.7	118	41.5	41	55	21.8	0.30	1,606	14.2
190. **Northwest Airlines**	228	64.8	50	897.7	−24	16	6.0	0.12	2,196	10.4
191. **Delta Air Lines**[1]	227	42.9	−87	nm	−689	−401	nm	1.42	3,616	6.3
192. **Williams**	226	20.0	54	81.9	−111	−58	4.6	1.94	2,167	10.4
193. **Humana**[6]	226	11.3	161	26.3	−379	−197	25.3	1.67	1,765	12.8
194. **Mesa Petroleum**	225	−8.9	126	−3.1	−69	−133	22.9	2.07	388	57.9
195. **Cox Communications**	224	19.9	78	19.1	23	−78	15.6	0.38	615	36.5
196. **Western Union**	224	8.1	−59	nm	−151	−114	nm	1.08	1,045	21.4
197. **Owens-Corning Fiberglas**	224	11.5	80	168.6	68	50	10.4	0.33	2,753	8.1
198. **Farmers Group**	222	−0.4	138	7.5	120	118	15.0	0.00	790	28.2
199. **Ingersoll-Rand**	222	−37.0	−112	nm	117	156	nm	0.64	2,274	9.8
200. **Archer-Daniels-Midland**[1]	221	29.5	110	−29	cf	−9	7.6	0.44	4,292	5.2

Definitions:
Cash flow from operations was derived from the following formula: net income (not including extraordinary items) adjusted to remove expenses not requiring cash (depreciation and deferred taxes) and income not generating cash (unremitted earnings from unconsolidated subsidiaries) and also adjusted for changes from the prior year in current receivables, other current assets other than cash and cash equivalents, current accounts payable, income taxes payable and other current liabilities other than notes payable and debt due within one year.

Percentage change in cash flow from operations is current cash flow divided by the prior year cash flow.

Discretionary cash flow from operations is cash flow from operations minus capital expenditures, total dividends and debt due in one year as reported in prior year's statement.

Return on common equity is net income available for common shareholders divided by common equity—that is, common stock plus capital surplus and retained earnings.

Debt as a percentage of equity is the ratio of total debt to total equity. It is calculated by taking long-term debt plus the portion of long term debt due in one year plus notes payable and dividing the total by total shareholder equity (preferred stock plus common stock, capital surplus and retained earnings).

Abbreviations:
cf: combined figure (calculation cannot be done because the company did not report individual items). *nm:* not meaningful (equation contains one or more negative numbers). *nr:* not reported (item required to do calculation was not reported).

Footnotes:
1. Fiscal year ended June 30, 1983. 2. Fiscal year ended January 31, 1984. 3. Fiscal year ended September 30, 1983. 4. Fiscal year ended February 29, 1983. 5. Fiscal year ended July 31, 1983. 6. Fiscal year ended August 31, 1983. 7. Fiscal year ended October 31, 1983. 8. Predivestiture. 9. Data drawn from annual report. 10. Dividends on preferred stock are greater than net income.

Source:
The study is drawn from the Standard & Poor's Compustat data base of 6,400 companies from which were eliminated financial companies (savings and loans, banks, insurance companies, securities firms and finance companies); companies with more than 50% of profits from finance subsidiaries of domestic companies and regulated utilities.

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(5/31/84) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$18.18/share	$ 9,459	$ 9,811
per cent change		−5.0%	−1.9%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE		$ 9,388	$ 8,279
ACCUMULATED INCOME	$ 86.31	$ 106	$ 1,127
TOTAL		$ 9,494	$ 9,406
per cent change		−5.0%	−6.0%
Money Market Fund	9.52%	$10,081	$10,914
per cent change		+ .8%	+9.1%
Gold (Krugerrands)	$411.00/oz.	$10,319	$ 9,362
per cent change		+3.2%	−6.2%
HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	$84,200	$80,000	$79,000
per cent change		+5.0%	+6.1%
New House	$94,600	$92,400	$92,100
per cent change		+2.3%	+2.6%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

maturity. Right now, with interest rates on long-term government temptingly high, the argument for buying zeros is compelling. Even high-tax-bracket executives who ordinarily avoid taxable bonds ought to consider them for gifts to minors, Individual Retirement Accounts or Keoghs.

The Treasury zeros are an artificial product created by Wall Street in mid-1982. Since then, reports Salomon Brothers managing director Adrian Massie Jr., bonds worth some $8 billion at market value and $40 billion at face value have been sold. As much as 85% of these bonds have gone to institutions because most individuals have yet to catch on to the value of their extraordinary features.

To make a zero, brokers buy up huge lots of T-bonds, strip the future interest payments from them, package the interest into $1,000 units and sell them as bonds. For example, by buying $200 million of 25-year T-bonds with a 12% coupon, the brokers create $24 million of zeros each year (12% of $200 million) plus $200 million in the twenty-fifth year, when the bonds mature. The price an investor pays for the bonds varies with the maturity. Thus, at a 12% yield, he will pay $190 for a $1,000 face value bond maturing in 1998 but only $54.75 for a unit maturing in 2009. The packager deposits coupons representing the interest payments with a trust institution, which collects the money as it is due and remits it to investors.

Because the Internal Revenue Service says that taxes are payable each year on the increase in the value of the bond as it approaches redemption at full face value, they are most suitable for low-tax or no-tax accounts, such as trusts or gifts to minors. For these, it is hard to overstate the advantages, particularly with recent rates of nearly 14% on maturities of more than five years. At that level, the returns are commensurate with what equities yield, but with absolutely no risk if held to maturity.

Moreover, with zeros an investor knows precisely the amount of money he must invest today to produce a given amount on a specific date in the future. For example, in saving for a child's education, an executive estimates the annual cost and then buys zeros maturing in each of the four college years, putting them in the child's name to minimize the income taxes. For an IRA, an executive could buy a zero yearly, with each due to mature at the same date—when he's 65, for instance—and at that point he could reinvest the whole sum. Or he could buy zeros yearly to mature in consecutive years, paying out like an annuity at 65, 66, 67, and so on.

Unlike other bond owners, investors in zeros know that the interest is being reinvested for them at long-term rates. This has been an important advantage recently, when short rates have been almost four percentage points lower than long rates.

A $1,000 conventional bond paying 14% today will return $3,520 in principal and interest in eighteen years; in contrast, $1,001.58 invested in a zero will pay back $10,000 in the same period. The return on the conventional bond could be higher if the $2,520 in interest payments were reinvested at more than 14%, but many individuals are negligent about reinvesting. And even if they are conscientious, they can't be sure of getting 14% or more. With zeros, there are no coupons to clip, no small checks to spend on other things. "A zero is a done deal; you don't have to worry about investing the coupons," says tax partner Mark Rachleff of Coopers & Lybrand. And the bonds are easy to sell.

Retail brokers such as Thomson McKinnon offer the bonds at a spread over its cost, so there is no commission. At discount brokers, such as Charles Schwab & Co., the minimum commission is $30, but the discounter charges no set-up or custodial fees for IRAs, which more than offsets the commission. Merrill Lynch, Pierce, Fenner & Smith markets zeros in $1,000 pieces (at 12%, the $1,000 becomes $3,207 in ten years). It charges no commission, but custodial fees for IRAs start at $20. —A.H.